STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Washington; Appropriations; General Obligation

Primary Credit Analyst:
Gabriel J Petek, CFA, San Francisco (1) 415-371-5042; gabriel_petek@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-1000; david_hitchcock@standardandpoors.com

Table Of Contents

Washington; Appropriations; General Obligation

Credit Profile		
US$698.23 mil var purp GO rfdg bnds ser R-2013C due 07/01/2031		
Long Term Rating	AA+/Stable	New
US$313.905 mil mtr veh fuel tax GO bnds ser 2013E due 02/01/2043		
Long Term Rating	AA+/Stable	New
US$297.92 mil mtr veh fuel tax GO rfdg bnds ser R-2013D due 07/01/2031		
Long Term Rating	AA+/Stable	New
US$240.045 mil var purp GO bnds ser 2013D due 02/01/2038		
Long Term Rating	AA+/Stable	New
Washington GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the state of Washington's:

- $698.2 million various purpose general obligation (GO) refunding bonds, series R-2013C;
- $297.9 million motor vehicle fuel tax (MVFT) GO refunding bonds, series R-2013D;
- $240 million various purpose GO bonds, series 2013D; and
- $313.9 million MVFT-GO bonds series 2013E.

At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the state's existing GO and MVFT GO debt. In addition, we affirmed our 'AA+/A-1+' rating on the state's variable rate 1996 series A and B GO bonds. The short-term rating reflects our short-term rating on the bank providing liquidity support to the bonds (Landesbank Hessen-Thueringen Girozentrale). The outlook on all long-term ratings and SPURs is stable. These bonds will be refunded with proceeds from the current bond sale, according to the state's plans. Finally, we also affirmed our 'AA' rating on the state's appropriation-backed debt.

The ratings reflect our view of the state's:

- Relatively well-educated workforce and good income indicators;
- Sales tax-based revenue structure that exhibits sensitivity to economic cycles but to a lesser degree than those of states that rely primarily on personal and corporate income taxes;
- Good internal access to sources of liquidity;
- Strong -- and strengthening -- financial policies and practices, including new statutory provisions requiring that the state's biennial budget and projected subsequent two fiscal years' spending plans be balanced; and
- Moderately high per capita debt burden but well-funded pension plans.

The state's full faith, credit, and taxing powers secure the new and refunding series of GO bonds. The state's MVFT GO bonds are first payable from state excise taxes on motor vehicle and special fuels. We understand that the series 2013D bonds are being issued to finance various capital and infrastructure projects in the state, including state and local water projects, multimodal transportation projects, and state programs for Columbia River Basin water supply development, among others. Proceeds from the series 2013E bonds will be directed toward state and local highway improvements and other Transportation-related projects within the state. Other projects include those identified as transportation 2003 or 2005 projects or improvements in the 2003 or 2005 omnibus transportation budgets, respectively.

The refunding bonds are being issued to refund portions of the state's existing GO bonded debt.

The state will have a total of $18.2 billion of GO bonds outstanding after the current offering. Of this, $7.2 billion of the state's GO debt is payable first from state excise taxes on motor vehicle and special fuels or toll revenue from the Tacoma Narrows Bridge. The state also has $940 million of certificate of participation (COP), appropriation-backed debt outstanding. Of this, $75 million is GO debt of various local agencies within the state and is a contingent obligation of the state government in the event of nonpayment by a local government agency.

Washington's overall approach to financial management is reflected in our financial management assessment (FMA) and budget management scores and is an important input to our credit rating and outlook on the state's debt. Well-established economic and revenue forecasting and increasingly refined debt management practices and oversight served the state's credit quality well during the recession and its aftermath. Forward-looking state policies facilitate budget practices we view as prudent, including minimal reliance on payment deferrals or other one-time responses to anticipated budget gaps.

Heading into the fiscal 2013-2015 biennium, Washington's economy is on the mend, and its revenues are poised to grow -- albeit more slowly than during prior economic expansions. But the fiscal outlook for the upcoming biennium is subject to several notable variables that could have a material effect on the state's finances. One stems from a recent State Supreme Court ruling (McCleary v. State of Washington), which found that the state is not funding its kindergarten through grade 12 (K-12) education system at its constitutionally required level. Moving toward compliance with the court's decision would add an estimated $1 billion in expenses to the 2013-2015 biennial budget; however, the court's ruling leaves many of the details around the timing and precise amount of new funding up to the state legislature. Second, while the state's economy is improving, negotiations over federal fiscal policy, a softer Asian economy, and the risk of contagion from the sovereign debt situation in Europe all threaten to undermine the state's pace of growth. Finally, the state begins with a projected $975 million revenue shortfall in the next biennium, not counting the education funding deficiency identified by the courts. Solving the shortfall is potentially complicated by recently passed Initiative 1185, which requires a two-thirds vote of the legislature to raise taxes (although the constitutionality of the measure is currently being challenged in the courts).

Approaching the conclusion of her second and final term, Governor Christine Gregoire offered in December a two-pronged budget proposal to the legislature and her successor. One proposal is based on current law and primarily relies on spending reductions and programmatic savings to reach balance. The governor's alternative budget proposal goes further and, by recommending raising approximately $1 billion in new revenues, would make a down payment on the state's education-related obligation pursuant to the McCleary decision. Newly elected governor, Jay Inslee, may also put forward his own budget proposal upon taking office in January 2013.

The "current law" budget proposal

Although the governor's budget proposal cites a $900 million projected gap, subsequent revisions to caseload and enrollment estimates contribute to a larger, $975 million projected gap. To close the gap, the governor proposes suspending Initiative 732, which would provide cost-of-living pay increases to teachers, saving $360 million. She also recommends $749 million in a variety of program cuts and savings. Among the savings are about $140 million from expanding the state's Medicaid program, availing the state to additional federal dollars while covering 255,000 newly eligible adults. Under this approach, the state would conclude the biennium with a $263 million ending balance in the general fund. Together with the projected budget-stabilization account ending balance of $575.5 million, the state would have a total ending position of $839 million, equal to about 2.5% of the two-year spending plan according to our estimates.

The "new law" budget proposal

The governor's alternative approach would raise approximately $1 billion in new revenues. Some of the taxes proposed, including the 0.3% surcharge on service businesses, a $0.50 beer tax, and a hospital safety assessment tax (designed to leverage federal Medicaid dollars) would be extensions of existing taxes scheduled to sunset at the end of the current biennium. Extending these taxes would add $635 million to state coffers during the biennium. In addition, however, the governor proposes a fuel excise tax linked to wholesale selling prices and repealing certain fuel use tax exemptions, for $431 million. The existing $975 million projected baseline budget deficit would be addressed through cuts, savings, and some fund transfers, as in the "current law" budget proposal. The alternative budget proposal provides for an increased projected ending balance and budget-stabilization account balances of $306.4 million and $575.5 million, respectively, or $881.9 million in total ending reserves. With the additional revenue, the plan also accommodates a 9.8% increase in spending to $34.1 billion for the biennium.

In its November 2012 forecast, the state's Economic and Revenue Forecast Council (EFRC) continues to anticipate a slow economic recovery and notes that downside risks remain. The state's forecast for the U.S. economy is premised on that of the Blue Chip Consensus and, at 2.0% and 2.8% for 2013 and 2014, respectively, roughly matches Standard & Poor's forecast for U.S. economic growth of 2.2% and 2.7% for the same years. Most negative influences on the state's forecast relate to macroeconomic risk, such as the European sovereign debt crisis and the potential for a slowdown brought on by federal fiscal policy. Washington's economy, nonetheless, remains well-poised for recovery although at a slower pace than recoveries from previous recessions. Nonfarm employment in Washington is expected to begin outpacing the nation in the next couple of years. For 2013 and 2014, the ERFC projects nonfarm payrolls in Washington to grow 2.0% and 2.1%, respectively, compared with the nation at 1.6% and 1.8%. Washington's real state gross domestic product has increased at a compound average annual growth rate of 1.7% versus the nation's 1.4% since 2000. The forecast for real state GDP growth is 1.9% in 2013 before beginning to accelerate to 2.5% in 2014. Strong performance in the high wage industries of aerospace and high technology suggest continued increases in total state personal income, which the state forecasts will grow by 2.7% in 2013 and 3.8% in 2014. State and local government remains a weak spot, having shed 20,800 jobs since peaking in August 2008. However, after hitting a possible trough in June 2012, state and local government employment has added back 5,800 jobs, albeit unevenly from month to month.

Through most of the recovery so far, the state's construction sector has also lagged. However, it is now starting to add jobs again. After peaking at 177,000 jobs in 2005, construction fell 22% through 2011. In 2012, jobs in construction ticked up by 2.3%. Growth in construction reflects the pickup in housing starts, which increased 28% in 2012. But the estimated 28,100 new housing permits issued in 2012 remain just 53% of the peak figure reached in 2005. As in other states, the housing sector has been a source of drag on the state's economy. Home construction troughed in 2009 and, according to the state's economist, is unlikely to rebound until home prices recover. Home prices in the Seattle metropolitan area increased 2.0% in October 2012, according to the Standard & Poor's/Case-Shiller home price index; on a year-over-year basis, prices rose 5.7%, which is a marked improvement compared with several months ago and better than the 10- and 20-city national indices, which were down 3.4% and 4.3%, respectively. As the state had forecasted in January 2012, downward pressure on the real estate market appears to be dissipating as there are fewer newly delinquent mortgages in the state.

For December 2012, the state treasury and treasurer's trust fund's month-end cash balance was $4.0 billion, which is above the $3.52 billion balance at the same time in 2011. Investments are conservative in our view, with an average for the month of 49% of funds invested in U.S. Treasurys and agencies. Repurchase agreements, which are subject to a maximum term of 180 days, represent 38% of investments. In addition to the state's investment guidelines, state policies require that collateral in repurchase agreements for U.S. Treasury, agency, and money market instruments be priced at 102% of market value. Mortgage-backed repurchase agreements of more than seven days are subject to a higher, 105% requirement.

As of fiscal 2012, the state's direct tax-supported debt burden (GO and appropriation-backed) is moderately high, in our opinion, at $2,743 per capita (based on U.S. Census 2011 state population), 6.25% of total personal income, and 5.3% of gross state product (GSP).

Unlike 20 other states in the U.S., Washington maintains a positive balance in its unemployment insurance fund -- $2.6 billion as of June 2012 -- sufficient to fund benefits for an estimated 13.4 months.

Based on the analytic factors we evaluate for states, on a scale of 1 (strongest) to 4, we have assigned Washington a composite score of '1.8'.

Outlook

The stable outlook reflects our view that the state's financial management is strong, as demonstrated by its continued willingness to make timely and proactive budget amendments as it deems necessary to maintain budgetary balance. The state's automatic budget-stabilization fund deposits serve its credit well when the economy -- and revenues -- take a negative turn. At present, the state is in a reserve rebuilding phase, which we view as important to the state's credit quality going forward. The state's tendency to deplete reserves during economic downturns limits the state's rating from moving upward. But the state's strong response to budget shortfalls, demonstrated again in the governor's 2013-2015 biennial budget proposals, reduce the likelihood of a lower rating even if the state economy generates less revenue than expected. This is because we believe that the state would respond in a timely and assertive manner to correct any potential imbalance that could result from such a scenario.

Downside credit risk would likely have economic origins, in our view. Negotiations at the national level over the federal debt ceiling and efforts at federal fiscal consolidation pose a macroeconomic threat that we believe could undermine Washington's economic recovery. Currently scheduled federal sequestration cuts would have a limited direct effect on the state's finances but could weaken the state economy due to the presense of military bases and federal contracting activity with Boeing. Furthermore, any potential revision to the structure of federal reductions in state aid, especially if they encompassed the Medicaid program, could result in more direct fiscal and credit pressure on the state.

Governmental Framework

The state's statutory requirement to adopt a balanced budget, when coupled with its financial management policies, encourages the state to manage toward ensuring its ongoing fiscal solvency. Legal protections for the state's GO debt include a specific constitutional requirement that the legislature make appropriations in the budget for the interest and principal installment payments on its debt. Although neither state statute nor the state constitution provide debt service a priority relative to other state payment obligations, no other payment obligation enjoys a specific requirement that an appropriation be made. This has the practical effect of providing debt service with a strong legal position among the state's various payment obligations, in our view.

The governor has authority to make across-the-board reductions to spending allotments when a cash deficit in a particular fund is projected. However, authority to impose disbursement reductions does not include allotments for basic education, pension benefits, or general obligation debt service. The state's office of financial management monitors and makes recommendations about cash management activities to the governor.

An active voter initiative environment complicates the state's governmental framework. We have viewed the active voter initiative environment as limiting the state's fiscal flexibility somewhat. However, the legislature's willingness and ability to set aside provisions of voter-approved initiatives when fiscal conditions warrant has proven beneficial to credit quality, in our view. (Initiatives may be amended with a two-thirds vote of the legislature within two years of passage and a simple majority of the legislature thereafter.) We noted, for instance, that as they did during the 2009-2011 biennium and during six of the past 12 years, the legislature temporarily suspended Initiatives 732 and 728 (for teacher cost-of-living salary increases and smaller class sizes, respectively). The initiatives were suspended again in the 2011-2013 biennium, and in the 2012 legislative session, the legislature repealed I-728 altogether.

Similar to many other states, significant spending areas in the budget are largely nondiscretionary. The state approximates that as much as 60% of spending, primarily for K-12 education, Medicaid, foster care, debt service, and pensions, is effectively legally required by some combination of state constitution, statute, court decision, or federal mandate. In addition, Washington voters have, over the years, approved initiatives that have reduced the revenue and spending autonomy of the state. In the current budget cycle, a voter initiative added $281 million to the state deficit (through fiscal year 2013) by repealing certain temporary taxes the legislature had adopted as a component of balancing the state budget.

During the 2011 legislative session, the legislature added a debt commission to the state's recently approved inaugural debt affordability study. The debt commission will evaluate the state's use of debt and make policy or constitutional change recommendations. Given that Washington's debt levels are somewhat higher than other states, we believe steps to contain the growth of its debt burden could have favorable implications for the state's credit quality.

In 2012, the legislature put on the ballot and the voters subsequently approved a constitutional amendment related to the prior state debt limit. The amendment lowers the limit on the state's annual debt service to 8% of a six-year moving average of general fund revenue from 9% of a three-year moving average. Finally, in 2012 the legislature approved reducing early retirement benefits for newly hired employees in three state pension plans and began phasing in a reduction of the assumed rate of return for its pensions.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.8' to Washington's governmental framework.

Financial Management

Financial management assessment: "strong"

We consider the state's management practices "strong" under our FMA methodology. An FMA of "strong" indicates our view that practices are strong, well embedded, and likely sustainable. The state Economic and Revenue Forecast Council, which is made up of representatives appointed by the governor's office, both houses of the legislature, and both major political parties, as well as the state treasurer, produces an analytical report on economic and revenue performance each month and, by statute, presents quarterly revenue forecasts covering the current and upcoming biennium. The state uses the council's forecasts, which are based on a modified IHS Global Insight model of the U.S. economy, to set revenue parameters at biennial budget adoption. The state has a record of making budget adjustments within the biennium when the forecast council materially changes its projections. Beginning with the fiscal 2013-2015 biennium, a new state law requires the legislature to balance not just the biennial budget but also the spending and revenues anticipated for the subsequent two-year period. In addition, the state convenes a Caseload Forecast Council three times per year, which forecasts service requirements in such areas as public assistance, state corrections, medical assistance, and K-12 education. The executive branch uses these forecasts, along with historical expenditures, to formulate budget proposals and mid-biennium revisions.

Further guiding budgeting decisions is a rolling, four-year general fund forecast maintained by the governor's Office of Financial Management. The state uses these forecasts to quantify the timing and scope of potential deficits in the subsequent biennium and, in some cases, to begin to address structural imbalances before the next budget cycle begins. Although the state does not have a minimum reserve policy, the state constitution requires the state to set aside 1% of most unrestricted state revenues in each fiscal year into a budget-stabilization fund, a form of "rainy day" fund. That fund can be tapped under a provision allowing the state to draw on the fund when employment growth falls below 1%, in the event of a catastrophic emergency, or by 60% supermajority vote of the legislature. It has not been tapped in the 2011-13 biennium. When the fund reaches 10% of estimated general state revenues in that fiscal year, the state can also draw excess funds for education capital projects. In addition, in November 2011, voters approved a measure requiring that any revenue growth that exceeds by one-third the average biennial growth in state revenues during the prior five biennia be transferred to the budget-stabilization account.

Other policies and practices include:

- Capital spending that the state budgets for on a biennial schedule but plans on a rolling, 10-year basis and includes funding sources;
- A formal investment management policy that covers eligible investments, maximum maturities (10 years), allocations of nongovernment securities, and internal and external controls; and
- Debt management under an issuance policy that, among other elements, addresses refunding savings thresholds.

Budget management framework

Washington adheres to budget management practices we consider generally strong. Across different gubernatorial administrations, when confronted with projected budget gaps, the state's political leadership has demonstrated a willingness to consider difficult fiscal adjustments, including both expenditure and revenue measures. In addition, when deficits emerge mid-cycle, the state has generally responded with timely corrective actions. Revenue projections are apolitical and developed according to the state's independent revenue forecasts. When deficits do emerge, however, the state tends to include nonrecurring measures among its solutions, and its updates to actual fiscal performance that include both revenue and spending trends are not regularly available at intra-year intervals.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.5' to Washington's financial management.

Economy

Washington's economy enjoys several fundamental strengths, including an above-average education level among its populace (30% of whom have bachelor's degree or higher). Other positive features of the state's economy are its consistently strong population growth trends (more than 4.5% faster than the U.S.), relatively low age-dependency ratio (55.6), good per capita GSP (108% of the nation), and good per capita incomes (106% of the U.S. Similar to other states, recent private sector job gains have been offset by public sector losses. As of November 2012, the state had added 48,400 jobs relative to November 2011, a 1.7% increase. However, public sector jobs declined 1,800 or 0.3% during the same period. Unemployment stood at 7.8% in Washington, equal to the national jobless rate.

Economic development prospects remain good in our view. Boeing, the state's largest employer, is benefitting from the global recovery in passenger and cargo air traffic increases. The firm currently has an approximately seven-year backlog of orders for aircraft, which should support its employment base even if trends are at a plateau. Since reaching bottom in May 2010, Boeing has added 15,700 jobs, and as of August 2012 it employs 82,000 in Washington. The state is also home to a vibrant high-technology sector, particularly in and around the Seattle metropolitan area. In addition to Microsoft, the state's second-largest private sector employer, there are approximately 4,200 software companies in the state. Of the approximately 2,500 software jobs lost during the recession, 2,100 jobs have been added back since December 2009. The outlook for economic growth is currently favorable although slower growth in China or other Asian economies could dampen demand for exports from Washington. In general, Washington's economy is trade-intensive and frequently at the top of per capita measures of export value in the U.S. Although during the past five years the state's annual rates of GSP growth have exceeded those of the nation's, in five of the past 12 years, national GDP grew at a faster clip, indicating some propensity for economic volatility in the state.

High-paying jobs with both of the state's largest employers, Microsoft and Boeing, support the state's forecast's for a personal income growth rate in excess of that of the U.S. through the forecast's timeframe of 2015 despite a similar overall job growth rate.

State-projected 4.1% and 5.5% rates of nominal personal income growth in 2013 and 2014 (calendar), respectively, exceed the state's forecast of fiscal year 2013 and 2014 cumulative general fund revenue growth of 6.8%. The divergence in the growth rates indicates relatively stronger economic activity among the higher value sectors in the state and partially reflects the fact that the state does not levy a personal income tax.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.4' to Washington's economy.

Budgetary Performance

Despite the projected budget gap, the state's fiscal position is stronger than at this pont prior to the start of the current 2011-2013 biennium. At that time, the state faced a projected shortfall of $4.9 billion. Through the course of its two-year 2011-2013 budget cycle, the state enacted a variety of cuts, some revenue enhancement, and budget adjustments. In addition, as the economy stabilized, its fiscal position improved naturally. Although the state ended fiscal 2012 in a negative position on a budgetary basis, as of December 2012 it forecasts a positive $459.6 million ending general fund balance for fiscal year 2013. As recently as June 2012, the state was forecasting a smaller ending balance of $289 million. Even the updated larger balance, however, remains relatively modest, equal to approximately 3% of spending for the year.

Liquidity

Washington's liquidity remains adequate despite its negative $743 million general fund cash balance at the end of December 2012. This is slightly improved from the negative $774 million at the end of December 2011. The state has access to cash for liquidity in its treasury and treasury trust funds, the former of which is subject to legislative appropriation. This cash is held in the custody of and invested on a comingled basis by the state treasurer. As a result of its good access to internal liquidity, the state does not rely on external borrowing for cash flow management. As such, we continue to view the state's internal liquidity sources as sufficient to support its general fund budget operations -- which we anticipate will continue to track an improving trajectory along with state revenues and the economy more broadly.

Audited financial performance

The state has a strong track record of maintaining good reserves, but the recession took its toll on the state's budget reserve by fiscal year 2011 and 2012. At June 30, 2011, however, the state's ending assigned and unassigned fund balance was about $1 billion, equal to 4.1% of expenditures on a Generally Accepted Accounting Principle basis, which we consider good. By the end of fiscal year 2012, the state's assigned and unassigned fund balance had declined a bit to $788 million but remained adequate, in our view, at 3.3% of expenditures. During expansionary phases of the economic cycle, the state consistently returns operating surpluses and good reserve positions. State authority to defer payments, borrow from the treasury and treasurer trust funds, and issue cash flow notes, if needed, all serve as contingency liquidity measures, but the state managed through the Great Recession without taking these steps. The absence of a formal policy for the state's budget reserve level allows for low balances to persist through protracted periods of economic and revenue softness.

The state's reliance on retail sales and business and occupation (gross receipts) taxes for a combined 69% of general fund tax revenues (on a budgetary basis) typically affords more revenue stability than other states enjoy because many of them rely on personal income tax revenues. Spending priorities are regularly evaluated through the state's "priorities of government" approach to zero-based budgeting. Independent and formal revenue and caseload forecasts inform budget decisions, and political leaders have demonstrated a willingness to make difficult adjustments when necessary.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of '1.9' to Washington's budget performance.

Debt And Liability Profile

As noted, Washington's debt is moderately high by several of our measures. Debt paydown is average, in our view, with 44% of outstanding principal amortized over 10 years. Gross GO and lease appropriation-backed debt service is moderate, at 5.29% of general government-wide (all funds) spending in fiscal year 2012 (audited). Portions of the state's debt are funded from self-supporting or reimbursable sources, however. When adjusting for these offsetting revenues, we estimate that debt service is 4.78% of general fund expenditures, moderate in our view. We anticipate that continuing transportation needs, including two major urban highway projects, will likely translate into continuing GO issuance in the next two to three years. The state currently projects that it may issue approximately $138 million in new certificate of participation backed bonds in early 2013 and another $803 million in new GO and MVFT GO bonds, respectively, in June 2013. The state also estimates that it may issue around $300 million of additional GARVEE bonds in the spring of 2013 to finance a portion of its State Route-520 transportation projects.

Pension plans are well funded

Long-term state liabilities include those related to the state's pension system and retiree health care. As of June 30, 2011, the actuarial accrued liability (AAL) of the defined-benefit portion of the state's 12 pension plans totaled $60.7 billion, of which actuarial assets ($64.8 billion) in aggregate accounted for 93.7%. The funded ratio improved after recent changes to the plan 1 (Public Employee Retirement System (PERS) and Teacher Retirement System--TRS). During its 2011 session, the legislature rescinded automatic cost of living adjustments (COLAs) to the PERS plan 1 and the TRS plan 1. Elimination of the uniform COLA generates $344 million in general fund savings for the fiscal 2011-2013 biennium. More importantly, in our view, over the long run, elimination of the UCOLA reduces the plan 1 unfunded actuarial accrued liabilities (UAAL) to $4.66 billion from $6.88 billion. This represents a 32% reduction of the prior plan 1 UAAL, according to the state actuary, and in our view is a significant improvement in the state's overall pension funded status.

Based on the most recent comprehensive annual financial report, in 2012, the state's total UAAL for its pension plans was $4.1 billion, equal to $601 per capita (using 2011 U.S. Census population figures), which we view as lower than average. Relative to total personal income, it is just 1.4%, which is low in our view (which we score as 'strong'). Contributions to pension funding equaled $392.6 million in fiscal 2012, equal to a low 1.65% of general fund expenditures. Although the state makes its required contributions to each plan as set forth in the plans' respective funding policies, contributions tend not to equal the annual required contributions (ARC). For fiscal year 2012, the total contributions from the state and other plan participants equaled 74% of the ARC.

OPEB is funded on a pay-as-you-go basis

Other postemployment benefits (OPEB) are funded on a pay-as-you-go basis. The state's OPEBs produce an implicit liability from allowing retired employees to purchase health, life, and vision insurance in the same pool as current employees at a subsidized rate. The explicit benefit subsidizes retired members' monthly premiums for enrollment in Medicare Parts A and B. On an actuarial basis, the state's portion of the AAL made up $3.49 billion of the total, and the annual OPEB cost was $330 million in fiscal year 2012, according to the state's fiscal 2012 audited financial statements. In fiscal year 2012, the state contributed $78.7 million for current pay-as-you-go expenses for retiree benefits, equal to less than 1% of annual general fund expenditures. We understand that the state does not plan to fully fund the ARC for the foreseeable future.

On a scale ranging from 1 (strongest) to 4, we have assigned a score of 2.3 to Washington's debt and liability profile.

Related Criteria And Research

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006
- U.S. State And Local Government Credit Conditions Forecast, Oct. 9, 2012

Ratings Detail (As Of January 16, 2013)		
Washington adj rate GO bnds ser VR-96A&B due 06/01/2020		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Washington certs of part (Washington St Dept of Gen Admin Tacoma Co-Location Proj) dtd 12/01/1996		
Long Term Rating	AA/Stable	Affirmed
Washington motor veh fuel tax GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington motor veh fuel tax GO rfdg bnds ser R-2013B		
Long Term Rating	AA+/Stable	Affirmed
Washington mtr veh fuel tax go bnds ser 2004C dtd 08/06/2003 due 06/01/2009-2030		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington mtr veh fuel tax GO bnds ser 2013B-1&2 due 08/01/2042		
Long Term Rating	AA+/Stable	Affirmed
Washington various purp gen oblig bnds		
Long Term Rating	AA+/Stable	Affirmed
Washington GO		
Long Term Rating	AA+/Stable	Affirmed
Washington GO bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO bnds ser 2013T due 08/01/2018		
Long Term Rating	AA+/Stable	Affirmed
Washington GO Mtr Veh Fuel Tx		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of January 16, 2013) (cont.)		
Washington GO (wrap of insured) (AMBAC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Washington GO (Motor Vehicle Fuel Tax)		
Long Term Rating	AA+/Stable	Affirmed
Washington certs of part rfdg (Dept of Ecology St Office Bldg Proj) ser RE-2003-B		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Washington GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Aberdeen, Washington		
Washington		
Aberdeen (Washington) spl rfdg rev bnds (Stafford Creek Corrections Ctr) ser 2009		
Long Term Rating	AA/Stable	Affirmed
FYI Properties, Washington		
Washington		
FYI Properties (Washington) Lease rev bnds (State Of Washington Dis Proj) ser 2009		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.